



[4830-01-P]

DEPARTMENT OF THE TREASURY

Internal Revenue Service

26 CFR Part 1

[TD 9612]

RIN 1545-BA53

Noncompensatory Partnership Options; Correction

AGENCY: Internal Revenue Service (IRS), Treasury.

ACTION: Correcting amendment.

SUMMARY: This document contains corrections to final regulations (TD 9612) that were published in the **Federal Register** on Tuesday, February 5, 2013 (78 FR 7997) relating to the tax treatment of noncompensatory options and convertible instruments issued by a partnership. The final regulations generally provide that the exercise of a noncompensatory option does not cause the recognition of immediate income or loss by either the issuing partnership or the option holder. The final regulations also modify the regulations under section 704(b) regarding the maintenance of the partners' capital accounts and the determination of the partners' distributive shares of partnership items. The final regulations also contain a characterization rule providing that the holder of a noncompensatory option is treated as a partner under certain circumstances.

DATES: This correction is effective on **[INSERT DATE OF PUBLICATION OF THIS DOCUMENT IN THE FEDERAL REGISTER]** and is applicable on or after February 5, 2013.

FOR FURTHER INFORMATION CONTACT: Benjamin Weaver, at (202) 622-3050 (not a toll-free number).

#### SUPPLEMENTARY INFORMATION:

#### **Background**

The final regulations that are the subject of this document are under sections 171, 704, 721, 761, 1272, 1273, and 1275 of the Internal Revenue Code.

#### **Need for Correction**

As published, the final regulations (TD 9612) contains an error that may prove to be misleading and is in need of clarification.

#### **List of Subjects in 26 CFR Part 1**

Income taxes, Reporting and recordkeeping requirements.

#### **Correction of Publication**

Accordingly, 26 CFR part 1 is corrected by making the following correcting amendments:

#### **PART 1-INCOME TAXES**

Paragraph 1. The authority citation for part 1 continues to read in part as follows:

Authority: 26 U.S.C. 7805 \* \* \*

Par. 2. Section 1.704-1 is amended by revising the third sentence of paragraph (b)(5)

Example 32(v) to read as follows:

§1.704-1 Partner's distributive share.

\* \* \* \* \*

(b) \* \* \*

(5) \* \* \*

Example 32. \* \* \*

(v) \* \* \* Under paragraph (b)(4)(x)(c) of this section, LLC must allocate the book gross income of \$3,000 equally among A, B, and C, but for tax purposes, however, LLC must allocate all of its gross income (\$3,000) to C. \* \* \*

\* \* \* \* \*

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